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DEPARTMENT PLEASE PASS TO USTR FOR AGAMA
COMMERCE FOR VINEYARD
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SUBJECT: GHANA: TRADE AND INVESTMENT FRAMEWORK AGREEMENT
COUNCIL MEETING

SUMMARY

¶1. During a July 19-23 visit to Ghana, Assistant U.S. Trade Representative Florie Liser, Commerce Deputy Assistant Secretary for Market Access and Compliance Holly Vineyard and

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accompanying USG officials engaged with GOG officials and members of Ghana's private sector to discuss strategies for increasing bilateral trade and investment. Ghanaian private sector exporters shared their concerns regarding poor infrastructure, low financing, high shipping costs, and lack of market research that prevent them from taking maximum advantage of the African Growth and Opportunity Act (AGOA). During the fourth council meeting of the U.S.-Ghana Trade and Investment Framework Agreement (TIFA), discussions with GOG officials focused on obstacles to maximizing exports under AGOA, such as the need for energy sector reform. Both sides agreed on the need to increase horticulture processing and to find ways to develop vertically integrated textiles and garment industries. They also agreed on the importance of finding ways to better support small and medium enterprises. GOG officials described their plans for using Millennium Challenge Account money to support their national trade strategy, and the two sides exchanged views on the current impasse in the Doha Round of WTO negotiations. The GOG proposed mid-July for the 2007 AGOA Forum and shared its ideas about the event. End Summary.

¶2. Assistant U.S. Trade Representative Florie Liser and her GOG counterpart, Minister of Trade, Industry, and Private Sector and Presidential Special Initiatives Alan Kyerematen, chaired the fourth council meeting of the U.S.-Ghana Trade and Investment Framework Agreement (TIFA) July 20-21, 2006, in Accra. Deputy Assistant Secretary of Commerce for Market Access and Compliance Holly Vineyard, USTR Director of African Affairs Laurie-Ann Agama, and Department of Energy International Program Specialist Tom Sperl accompanied A/USTR Liser.

EXPORTERS NEED INFRASTRUCTURE, FINANCING, RESEARCH
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¶3. In July 20 sessions with Ghanaian apparel and non-apparel exporters, A/USTR Liser emphasized that Ghanaian exporters must take advantage of the African Growth and Opportunity Act (AGOA) to increase exports to the United States. Ghanaian exporters generally lauded USAID's West Africa Trade Hub for helping them connect with U.S. buyers through trade shows. They expressed concerns, however, about infrastructure, financing, shipping costs, and market research that prevent

them from taking full advantage of AGOA. In the apparel session, exporters questioned how Ghana could achieve vertically integrated textile and garment industries when much of the fabric used in Ghanaian garment production is currently sourced from outside the sub-region, and the AGOA third country fabric provision is scheduled to expire in 2007.

¶4. In both sessions, exporters generally complained of inadequate GOG efforts to improve infrastructure, including roads, energy, and reliable cold storage. The banking sector was criticized for offering only short-term, high interest financing that fails to meet the needs of businesses attempting to expand in order to produce the volumes required by U.S. buyers. Companies seeking to maximize exports under AGOA also face freight challenges. Surface shipping to the United States is over four times the cost of that to Europe, the journey often takes three weeks or more, and containers in some cases face long delays at U.S. ports for quarantine and security purposes, they said. Finally, exporters noted that Ghana lacks institutional capacity to conduct market research.

U.S.-GHANA TRADE AND INVESTMENT FRAMEWORK AGREEMENT
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¶5. Opening the fourth session of the U.S.-Ghana Trade and Investment Framework Agreement (TIFA) council meeting on July 21, Kyerematen called attention to Ghana's constructive engagement with the USG and with the U.S. private sector over the years, which would culminate, he said, in the landmark signing of Ghana's USD 547 million Millennium Challenge Compact. The United States' role as a close friend and strategic ally of Ghana, however, is not reflected in the volume of bilateral trade, he said. Saying that these numbers will not change unless Ghana takes full advantage of AGOA, which lies at the heart of U.S.-Ghana trade relations,

Kyerematen expressed his hope that the talks would include a serious look at how the United States can help Ghana take advantage of AGOA.

¶6. Ghana is a special country with huge potential, A/USTR Liser said. Agreeing that current trade relations do not accurately reflect Ghana's important bilateral relations with the United States, Liser noted that if Ghana and other African countries were to capture only one percent more of global trade, it would generate billions more each year in revenue and create thousands of jobs.

¶7. In her opening remarks, the Ambassador stressed that Ghana was the first West African country to obtain certification for AGOA eligibility and that the United States is the fifth largest investor in Ghana. The country must do more, however, if it is to reach its goal of Middle Income status by 2015, she said. In particular, Ghana must address widespread corruption, a slow court system and high rates of fraud, all of which dissuade tourists and investors from spending their money in Ghana, she stated.

TRADE CAPACITY BUILDING: GHANA'S ENERGY PROBLEMS
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¶8. The lack of an adequate or stable energy supply, coupled with high energy costs, makes Ghanaian producers less competitive, A/USTR Liser said. Though tackling the entire problem would likely cost billions of dollars, targeting the energy needs of specific export-oriented factories could have a dramatic impact. Conducting a survey of top exporters' energy needs, in addition to improving donor coordination with the World Bank and others, could help the GOG obtain appropriate support. The GOG must also address Ghana's energy regulatory regime, Department of Energy International Program Specialist Tom Sperl added. With the opening in 2007 of the West Africa Gas Pipeline, running from the Niger Delta to Togo, Benin and Ghana, the market for gas services in

Ghana will be extremely lucrative, Sperl continued. However, to cash in on this opportunity Ghana must create state-of-the-art legal and financial regulatory regimes and minimize barriers to entry for service providers. USAID/Ghana Advisor on Economic Growth Trade and Investment Ron Stryker noted that some progress is already being made in this area, with USAID supporting GOG efforts to develop a regulatory framework for a secondary market for gas coming from the pipeline.

¶9. Minister Kyerematen agreed that Ghana must target the energy needs of export-oriented industries. The GOG is also attempting to address the problem of regulatory transparency in the energy sector, he said, exploring whether Ghana has any specific policy barriers or is doing enough to provide incentives to independent power producers.

FROM AGRICULTURE TO AGRO-PROCESSING

¶10. USAID/Ghana Advisor on Economic Growth Trade and Investment Ron Stryker explained that USAID's Trade and Investment Program for a Competitive Export Economy (TIPCEE) is focused on helping Ghana's horticulture sector to become self-sustaining, though the program also works with various ministries to improve Ghana's investment climate. Making the point that Ghana must strive to export agricultural products not only to Europe, but also to the United States, A/USTR Liser noted that while raw agricultural products can enter Europe duty free, processed foods face tariff escalation. AGOA, however, does the opposite, allowing processed foods from Africa to enter the United States duty free. Third countries that invested in agricultural processing in Ghana could save an average of 20 percent in tariffs by exporting to the United States under AGOA, Liser said.

¶11. Minister Kyerematen responded that high trans-Atlantic freight costs prevent Ghana from competing with Latin American countries on raw agricultural exports to the United States. He said the focus for both TIPCEE and the Millennium Challenge Compact must be to put a heavier emphasis on processing. To address the high cost of trans-Atlantic sea freight and the dearth of air cargo options from Ghana to the United States, A/USTR Liser suggested that Kyerematen and other ministers organize a meeting with shipping companies and air carriers to seek ways to improve transport options for Ghana and other West African nations.

SMALL AND MEDIUM ENTERPRISES NEED HELP, TOO

¶12. Minister Kyerematen told A/USTR Liser that Ghana also needs help in developing its small and medium enterprises (SMEs) and would benefit from the assistance of the U.S. Small Business Administration (SBA) in this respect, as well as in re-engineering Ghana's own SBA-type institution. Noting that his Ministry has already established a framework for cooperation with SBA, Kyerematen lamented that SBA does not appear to have funding for conducting work outside the United States. USAID support for SBA assistance is preferable, he added, because while other donors like the World Bank do provide support to the SME sector, it is not in the form of direct subsidy payments. A/USTR Liser suggested that relevant USG agencies work to improve coordination on assistance to Ghana and see if existing funds could be leveraged for providing help on SMEs. Some work is already happening in this area, Liser said, noting that the Trade Development Agency (TDA) has provided grants to Ghana to train SMEs to become localized electricity distribution companies.

ENHANCING GHANA'S PARTICIPATION UNDER AGOA

¶13. AGOA is at the heart of the U.S.-Ghana trade relationship, Kyerematen said. Ghana is developing a country strategy for taking advantage of AGOA, as called for by the African Ministerial Consultative Group, that consists of a national trade policy as well as direct support interventions to the private sector. Ghana's national trade policy, being developed with input from the private sector, includes the areas of trade facilitation, production capacity, trade support services, domestic trade, competition policy, an IPR regime, standards, and consumer protection. The sector-specific, enterprise-level interventions would take place in select areas: garments and textiles, wood processing, agro-processing, and fish products and processing.

¶14. Describing Ghana's sector-specific strategy for textiles, Kyerematen said the plan has three components. First, Ghana will set up a "garment village" in the free trade zone to provide infrastructure and support for entrepreneurs. Second, the GOG will train young workers to develop a talent pool from which investors can easily draw. Third, the GOG will support market development to attract foreign investors by addressing problems with infrastructure and the regulatory environment. Ghana must support its own entrepreneurs, Kyerematen said, as foreign garment manufacturers still have little interest in exporting to the U.S. market from Africa--despite AGOA--due to the phase-out of the Multi-Fibre Agreement (MFA) and the fact that setting up a textile mill in Ghana would require a USD 100 million or more investment.

¶15. Echoing points she made the previous day, A/USTR Liser stressed the difference between the garment and textile industries and noted that roughly 94 percent of the apparel entering the United States under AGOA makes use of third-country fabric. Ghana, therefore, must invest in fabric production and develop vertically integrated textile and garment industries if it is to compete effectively. Addressing Kyerematen's concerns about the cost of developing the textile industry in Ghana, Liser argued that simply extending the allowance on third-country fabric will not in itself lead to vertical integration, but rather that any further extension must be structured to include incentives for AGOA-eligible exporters to use more African-made fabrics. Congress already extended third-country fabric in 2004, Liser continued, and would certainly need to know why a further extension is needed and how it could be structured to meet immediate and longer-term goals for Africa's apparel industry.

2007 AGOA FORUM PLANNING

¶16. Turning to plans for Ghana's hosting of the 2007 AGOA Forum, Kyerematen suggested that either June or July would be the most suitable timeframe in order to avoid Ghana's 50th anniversary celebrations in March, while also taking advantage of Ghana's most pleasant season. Kyerematen proposed that in the months leading up to the Forum, sub-regional consultative groups such as ECOWAS and SADC could meet twice to chart their progress toward developing an AGOA strategic framework. Just prior to the actual Forum

there would be a technical experts meeting. The day before the Forum there would be a Ministerial, and finally the AGOA Forum itself. Kyerematen proposed that civil society and private sector participants be integrated into the main Forum event.

¶17. Thanking Ghana for offering to host the 2007 AGOA Forum, Liser said a USG planning team would need to visit Ghana to meet with the host point of contact at least twice prior to the event. Liser suggested that planners on both sides try to find opportunities to meet that piggyback on other scheduled events, such as an ECOWAS meeting, to bring together AGOA members from a number of countries.

MILLENNIUM CHALLENGE ACCOUNT, DOHA ROUND

¶18. The GOG side offered a detailed presentation to A/USTR Liser on how Ghana intends to use its USD 547 million Millennium Challenge Compact, particularly how the MCC will support Ghana's overall trade strategy. Examples include helping with farmers' transition from subsistence farming to cash crops, improving infrastructure such as feeder roads to facilitate bringing goods to market, creating an unbroken cooling chain to allow Ghanaian producers to move into higher value fruits and vegetables, and targeting education and financial reforms to assist producers. Liser commended Ghana for its compact, saying that the country has truly put the concept of "aid for trade" into practice.

¶19. A/USTR Liser and Kyerematen discussed the future of the Doha Round of WTO talks at some length, particularly the issue of U.S. and EU disagreements over the depth of necessary tariff cuts. Both sides agreed that the EU must show more flexibility if any progress is to be made.

¶20. A/USTR Liser cleared this cable.

BRIDGEWATER